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## Finance Committee Meeting

February 12, 2001

### | Committee Members |

Mr. Herbert S. Winokur, Jr., Chairman  
Mr. Robert A. Belfer  
Mr. Norman P. Blake, Jr.  
Mr. Ronnie C. Chan  
Mr. Richard N. Foster  
Mr. Jerome J. Meyer  
Mr. Paulo V. Ferraz Pereira  
Mr. Frank Savage  
Mr. John A. Urquhart

EC004403428

GOVERNMENT  
EXHIBIT  
288

Crim. No. H-04-25 (S-2)

## **Agenda**

EC004403429

**AGENDA**  
**Meeting of the Finance Committee**  
**of the Board of Directors of Enron Corp.**

**4:00 p.m. (CDT), February 12, 2001**  
**50<sup>th</sup> Floor Boardroom, Enron Building**  
**Houston, Texas**

		Page
1. Approval of December 11, 2000 Finance Committee Minutes	Mr. Winokur	1-1
2. Financial Reports		2-1
A) Chief Financial Officer Report	Mr. Fastow	2A-1
B) Review of LJM procedures and transactions completed in 2000	Mr. Causey	2B-1
3. Treasurer Report	Mr. Glisan	3-1
4. Chief Risk Officer Report	Mr. Buy	4-1
<b>Quarterly Risk Update</b>		
- Merchant Portfolio Summary		4-2
- EES Status Report		4-18
- Market Risk Update		4-26
5. Projects and Amendments		5-1
A) <b>Revision to the Risk Management Policy</b>	Mr. Buy	5A-1
- Approve for Recommendation to the Board		
B) <b>Revision to the Transaction Approval Process</b>	Mr. Buy	5B-1
- Approve for Recommendation to the Board		
C) <b>Eli Lilly</b>	Mr. Blachman	5C-1
- Approve for Recommendation to the Board		
6. Other Business		6-1
7. Adjourn		7-1

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*See Addendum for Deal Approval Sheets approved between Board meetings*



Finance Committee Meeting

**Agenda Item 1**

EC004403431

# **Enron Corp**

## **Finance Committee Minutes February 12, 2001**

EC004403432

**MINUTES  
MEETING OF THE FINANCE COMMITTEE  
OF THE BOARD OF DIRECTORS  
ENRON CORP.  
DECEMBER 11, 2000**

Minutes of a meeting of the Finance Committee ("Committee") of the Board of Directors of Enron Corp. ("Company"), noticed to begin at 4:00 p.m. C.S.T., but actually begun at 4:05 p.m., C.S.T., at the Enron Building, Houston, Texas.

The following Committee members were present, either in person or by telephone conference connection, where each member could hear the comments of the other participants and join in the discussion, as follows:

Mr. Herbert S. Winokur, Jr., Chairman  
Mr. Robert A. Belfer  
Mr. Norman P. Blake, Jr.  
Mr. Jerome J. Meyer  
Mr. Paulo V. Ferraz Pereira  
Mr. Frank Savage  
Mr. John A. Urquhart

Committee member Ronnie C. Chan was absent from the meeting. Directors John H. Duncan, Ken L. Harrison, Kenneth L. Lay, and Jeffrey K. Skilling, Messrs. William S. Bradford, Raymond M. Bowen, Jr., Richard B. Buy, Jeremy L. Blachman, Richard A. Causey, David W. Delainey, Andrew S. Fastow, David G. Gorte, Stephen H. Friedlander, Mark A. Frevert, Ben F. Glisan, Jr., Mark E. Koenig, Richard A. Lammers, Jeffrey McMahon, Theodore R. Murphy, Adam S. Umanoff, Greg L. Whalley, Thomas E. White, and Ms. Rebecca C. Carter, all of the Company or affiliates thereof, and Mr. Richard N. Foster, of McKinsey & Company, Inc., also attended the meeting.

The Chairman, Mr. Winokur, presided at the meeting, and the Secretary, Ms. Carter, recorded the proceedings.

Mr. Winokur called the meeting to order, noted that a draft of the minutes of the meeting of the Committee held on October 6, 2000 had been distributed to the Committee members, and called for any corrections or additions. There being none, upon motion duly made by Mr. Blake,

seconded by Mr. Meyer, and carried, the minutes of the meeting of the Committee held on October 6, 2000 were approved as distributed.

Mr. Winokur called upon Mr. Fastow to present the Chief Financial Officer's report, a copy of which is filed with the records of the meeting. Mr. Fastow discussed the Company's current and projected key financial ratios and stated that the ratios were based on the current plan. He discussed transactions that had recently been completed and those remaining to be completed and commented on the impact the transactions would have on the Company's coverage ratios. He then discussed the current market credit spreads and noted that it was management's opinion that the gap in spreads would remain for a period of time. He reviewed the Company's stock trading portfolio and noted that the Company had purchased approximately one million shares of the Company's common stock during the previous two weeks. He presented a chart depicting the Company's interest rate sensitive items and noted the dollar amounts at fixed and at floating interest rates. He then reviewed the Company's cost of capital utilizing different methodologies, the reoffer spreads over the last five years, and the seven-year spread as compared to the BBB and A indices.

Mr. Winokur then called upon Mr. Glisan for the Treasurer's report, a copy of which is filed with the records of the meeting. Mr. Glisan reviewed the liquidity report as of November 27, 2000 and noted that the Company's total liquidity was currently over \$7.5 billion. He discussed margin calls the Company was making and receiving, noted that they were caused by the significant increase in natural gas prices, and stated that management desired to increase the level of cash on hand due to an anticipated liquidity squeeze in the markets. He reviewed year-to-date investments and proceeds on sales of assets and noted that during the year there had been fewer assets sales and more capital invested than originally planned. He then discussed the ten largest financing transactions that had been or were to be completed between June 30 and December 31, 2000 and presented the total number of transactions completed during this period and the status of those transactions that had not been financially closed. He then reviewed the Company's outstanding letters of credit and noted that there were no significant changes since the last Committee meeting. He discussed the Company's guarantee portfolio and stated that the significant increase in the volumes transacted by the Company had led to related increases in required guarantees. He then stated that there had not been any change in the Company's ratings by the rating agencies.

Mr. Winokur called upon Mr. Buy to present the Chief Risk Officer's Report, a copy of which is filed with the records of the meeting. Mr. Buy distributed a supplement to the Chief Risk Officer's report, titled an Update

to Credit Risk and Market Risk, a copy of which is filed with the records of the meeting. Mr. Buy then discussed the Company's Top 25 credit and major relationship exposures and stated that there had been a significant increase in exposure due to the volatility in the market. Mr. Skilling joined him in a discussion of the situation at Pacific Gas and Electric. He then noted that the Company's biggest credit exposures were to companies that management believed the Company would be able to recover from. Mr. Buy then reviewed the cash and other collateral the Company had collected from or paid to other parties.

Mr. Buy then began a discussion of the Company's merchant portfolio and presented the top ten country credit exposures. He reviewed the performance of debt and equity instruments held by the Company and the breakdown of the Company's equity exposure by industry and geographic region. He then discussed the top and bottom ten investments as determined by the Risk Assessment and Control ("RAC") group. He then stated that the foreign exchange project update, included in the meeting materials, would be postponed to a later date.

Mr. Winokur then changed the agenda and called upon Mr. Lammers to begin the Cuiaba Integrated Energy Project ("Cuiaba") presentation, a copy of which is filed with the records of the meeting. Mr. Lammers reviewed the previous Board approvals related to the Cuiaba project and updated the Committee on the status of the construction of the power plant and the Bolivian and Brazilian pipelines. He noted that the project had incurred significant cost overruns due to construction problems in Brazil, higher than anticipated environmental costs, and delays in the project. He then presented a reconciliation of Cuiaba's budget from the initial presentation to the Board, in November of 1997, to the second presentation, in September of 1999, to the current estimate. He reviewed the causes of the cost overruns and presented a chart depicting the sources and uses of funds related to the project. He then answered questions from the Committee regarding the potential consequences if the Committee did not recommend additional capital for the project. He then stated that it was management's recommendation that the Committee approve an additional equity contribution of \$85 million, to total \$187.5 million of permanent equity financing, and the funding of an additional \$300 million, on an interim basis, to complete Cuiaba prior to financial close. He noted that the interim funding would not be required if certain other events occurred. Following a discussion, upon motion duly made by Mr. Blake, seconded by Mr. Urquhart, and carried, the proposed recommendations regarding the Cuiaba project were approved for recommendation to the Board.

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Mr. Lammers left the meeting following his presentation.

Mr. Winokur called upon Messrs. McMahon and Whalley to discuss certain proposed projects. Mr. McMahon stated that the Enron Industrial Markets group ("EIM") was proposing establishing a vehicle, Enron Net Works Partners Fund, to allow the Company to achieve asset positions in industrial markets utilizing outside capital. He noted that the vehicle would be a joint venture of up to \$1.5 billion that would invest in the pulp, paper, steel, and lumber industries. He reviewed the potential partners, the cash and assets that would be contributed by the Company, the cash that would be contributed by outside investors, and the ownership structure. He discussed the Company's exit strategy from the fund and presented a schematic depicting how the cash flows from the fund would be distributed to the partners. Mr. Skilling discussed the broad concept of the fund and stated that the Company already had a presence in the merchant business side of the industries but management believed that the creation of the fund would increase the Company's access to liquidity in the markets. Following a discussion, upon motion duly made by Mr. Belfer, seconded by Mr. Urquhart, and carried, the proposed Enron Net Works Fund was approved for recommendation to the Board.

Mr. McMahon then stated that the Company had decided not to proceed with project Canary, which was included in the meeting materials, due to changes in the market conditions. Mr. Whalley stated the Company was entering into new markets where management believed it was necessary to have a physical presence in order to succeed. Mr. McMahon stated that EIM's mission was to expand the Company's business model into non-energy businesses. He reviewed EIM's three-year plan and discussed the projected value that EIM would add to the Company by the year 2003. He then stated that EIM was proposing the purchase of a newsprint facility located in Quebec City, Canada, (project "Crane"). He presented certain basic information regarding the facility, financial data, and the proposed acquisition price. He discussed the capital price used by the RAC group in its evaluation and noted that it produced a lower acquisition price than the EIM group was proposing to bid. Messrs. Frevert and Whalley joined him in answering questions from the Committee. Following a discussion, upon motion duly made by Mr. Belfer, seconded by Mr. Urquhart, and carried, project Crane was approved for recommendation to the Board. Messrs. Bowen and McMahon left the meeting following their presentation.

Mr. Winokur then stated that there were five additional projects that management was proposing to the Finance Committee. He stated that the projects were as follows: 1) Project Inga, a \$105.25 million project to

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purchase 100% of the stock of Ahlstrom Development Corp. ("Ahlstrom") and to acquire Ahlstrom's North American portfolio, 2) Fountain Valley Power LLC, the development and construction of a 240 megawatt natural gas-fired simple cycle power plant, utilizing turbines from the Company's portfolio, combined with an 11-year fixed power purchase agreement with the Public Service Company of Colorado, 3) Indian Mesa II, the construction and operation of a 135 megawatt wind project that would sell energy and renewable energy credits to a Company subsidiary pursuant to 20-year contracts, 4) Project Texas, a project in which the Company was proposing taking title to the natural gas, electric, water, and wastewater systems relating to the operations of utility distribution assets of 11 military bases in the state of Texas that were being privatized by the U.S. Federal government, and 5) a 15-year bundled energy outsourcing contract with Eli Lilly and Company. Following a discussion, upon motion duly made by Mr. Meyer, seconded by Mr. Blake, and carried, the five projects were approved for recommendation to the Board.

Messrs. Blachman, Friedlander, Umanoff, and White left the meeting following the discussion.

Mr. Winokur then called upon Mr. Buy to discuss the proposed changes to the Transaction Approval Process ("TAP"). Mr. Buy stated that management was recommending certain changes to the TAP to incorporate recent organizational changes at the Company, increase the monetary threshold of transactions subject to the TAP from \$500,000 to \$2.5 million, modify the definition of non-conforming transactions, and authorize a separate approval process for certain transactions. Following a discussion, upon motion duly made by Mr. Ferraz, seconded by Mr. Belfer, and carried, the proposed changes to the TAP, as filed with the records of the meeting, were approved for recommendation to the Board.

Mr. Buy then stated that management was recommending certain amendments to the Enron Corp. Risk Management Policy to reflect: 1) permanent limit increases relating to the pulp and paper and North American natural gas commodity groups within the trading portfolios, 2) permanent limits requested for the lumber and steel portfolios under the Interim Policy, 3) permanent limits requested or modified for credit trading and the North American cross-commodity portfolio, 4) the addition of DRAM chips as a new commodity group, 5) the modification of agricultural trading, advertising trading, and Columbian electricity trading commodity groups under the Interim Policy, and 6) modifications to the loss notification requirements. Following a discussion, upon motion duly made by Mr. Ferraz, seconded by Mr. Blake, and carried, the proposed changes to the

Enron Corp. Risk Management Policy presented at the meeting were approved for recommendation to the Board.

Mr. Winokur then asked Mr. Buy to present the status report on RAC's review of Enron Energy Services LLC ("EES"). Mr. Buy reviewed EES's commodity position summary and highlighted the net open positions that were related to the regulated and deregulated areas. He stated that the Company had established a joint EES and RAC task force to deal with the issues of risk analytics, credit risk management, implementation risk, and commodity actualization. He stated that the task force had already accomplished the following: 1) senior resources had been dedicated to improve controls and risk measurement, 2) RAC had reinforced the TAP with the EES origination and trading organizations, and 3) since September 2000, 50 tasks had been identified and timelines related to completing the tasks had been established. He then reviewed the major issues that the task force would be focusing on. He presented a chart depicting EES's energy asset capital expenditures and discussed the progress that had been made in developing projects and obtaining customer approvals. Mr. Skilling answered questions from the Committee regarding actual project implementations that continued to lag the original projections and stated that the actual energy savings related to projects displayed a wide distribution of outcomes relative to the original projections.

There being no further business to come before the Committee, the meeting was adjourned at 5:55 p.m. C.S.T.

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Secretary

APPROVED:

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Chairman

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**Agenda Item 2**

EC004403439

# **Enron Corp**

## **Financial Reports**

### **February 12, 2001**

EC004403440



**Agenda Item 2A**

EC004403441

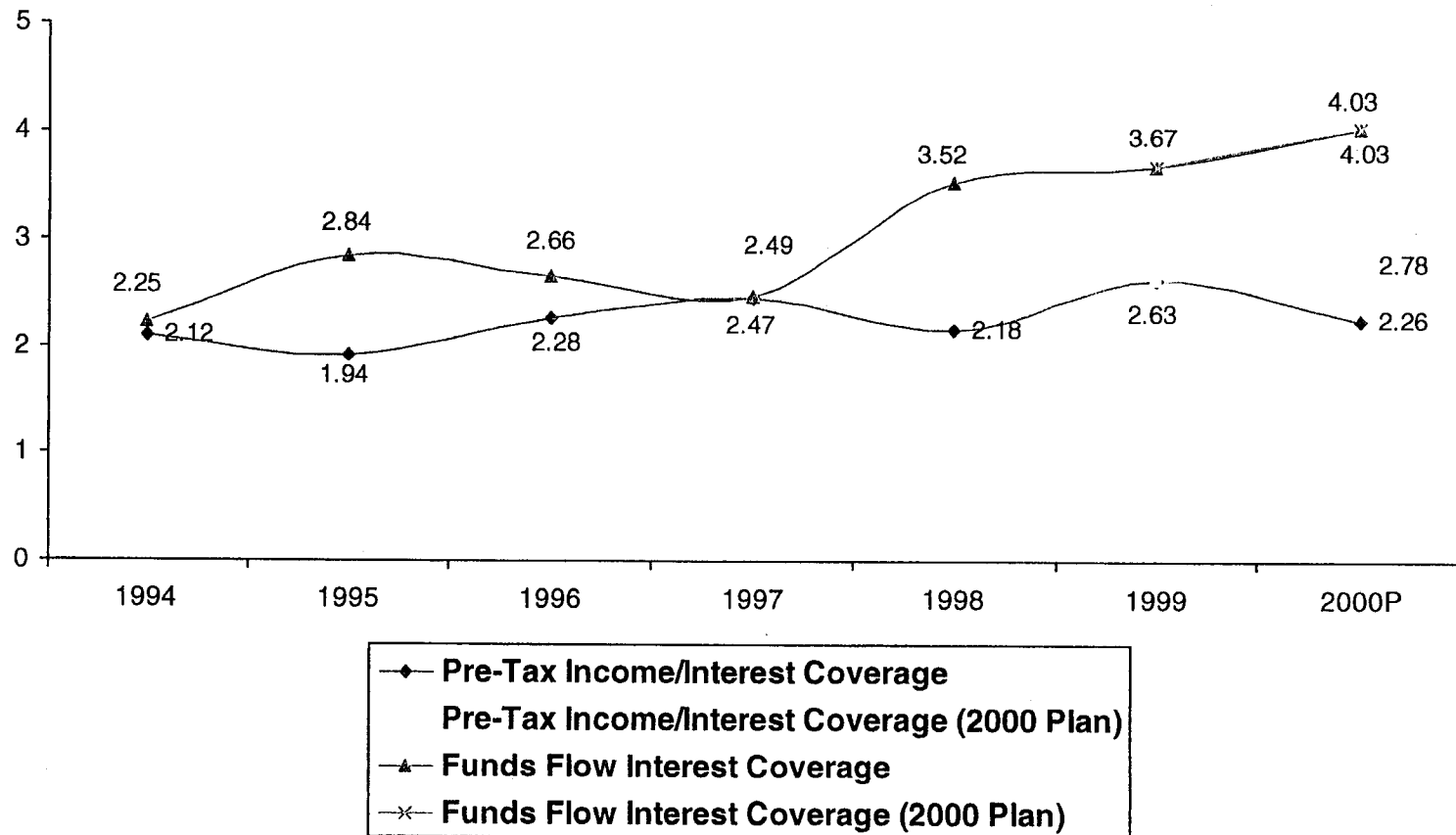
# **Enron Corp**

## **Chief Financial Officer Report February 12, 2001**

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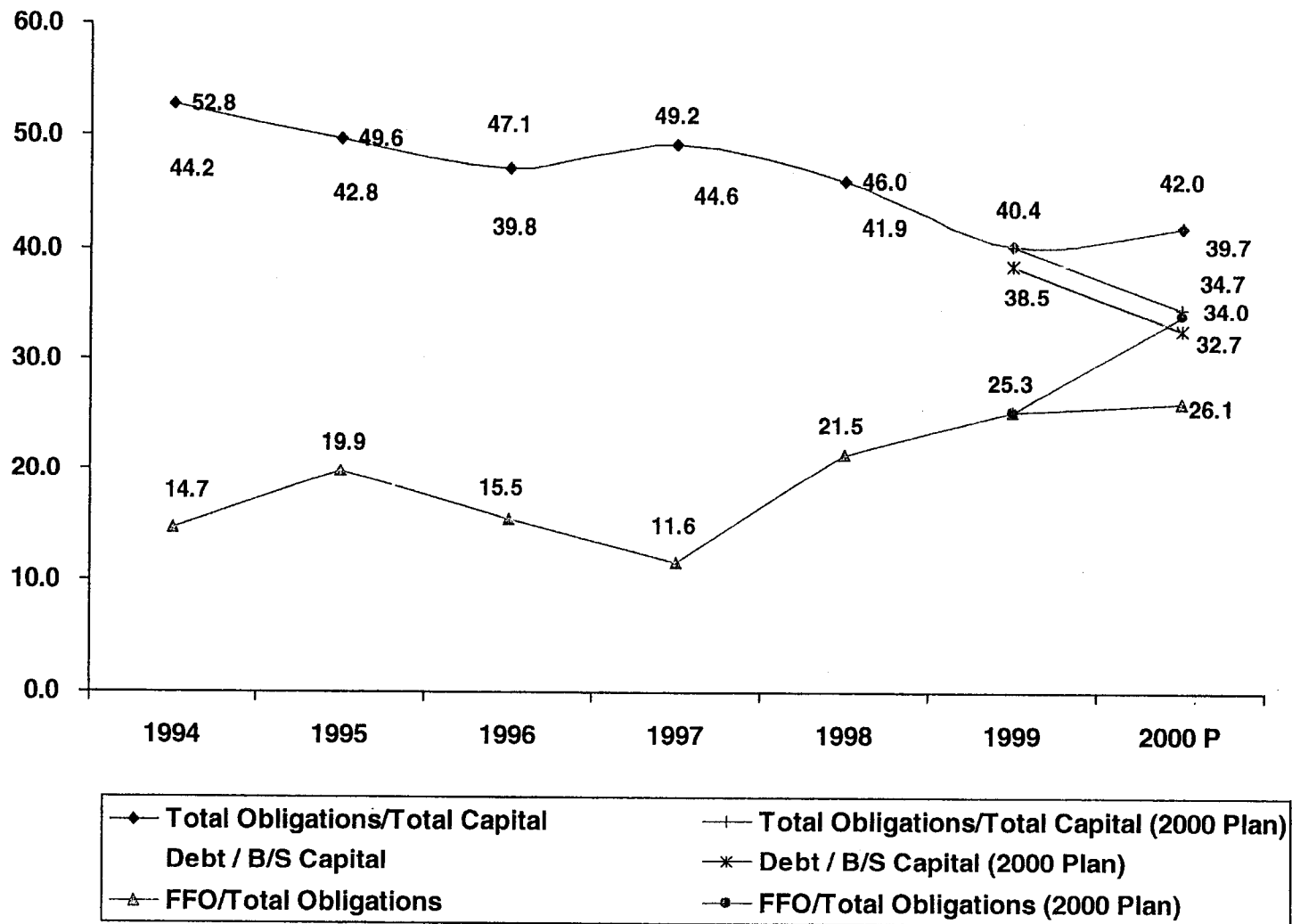


# Targeted Key Coverage Ratios





# Targeted Key Leverage Ratios



# Stock Trading Portfolio

## Mark-to-Market Basis

	<b>Position - Thousands of Shares</b>			
	<u>1/1/2001</u>	<u>Purchases</u>	<u>Sales</u>	<u>1/29/2001</u>
<b>ENE</b>	-	-	-	-

### Notes:

<b>EGF Equity Position Limits</b>		
	<u>V@R</u>	<u>Notional Open</u>
Limit (\$MM)	\$10.00	\$300.00
Current Position (\$MM)	\$0.00	\$0.00

- Position limits exclude ENA position, which is reflected in ENA equity book position report
- Includes 60% of JEDI if an open position

# Stock Purchase Activity

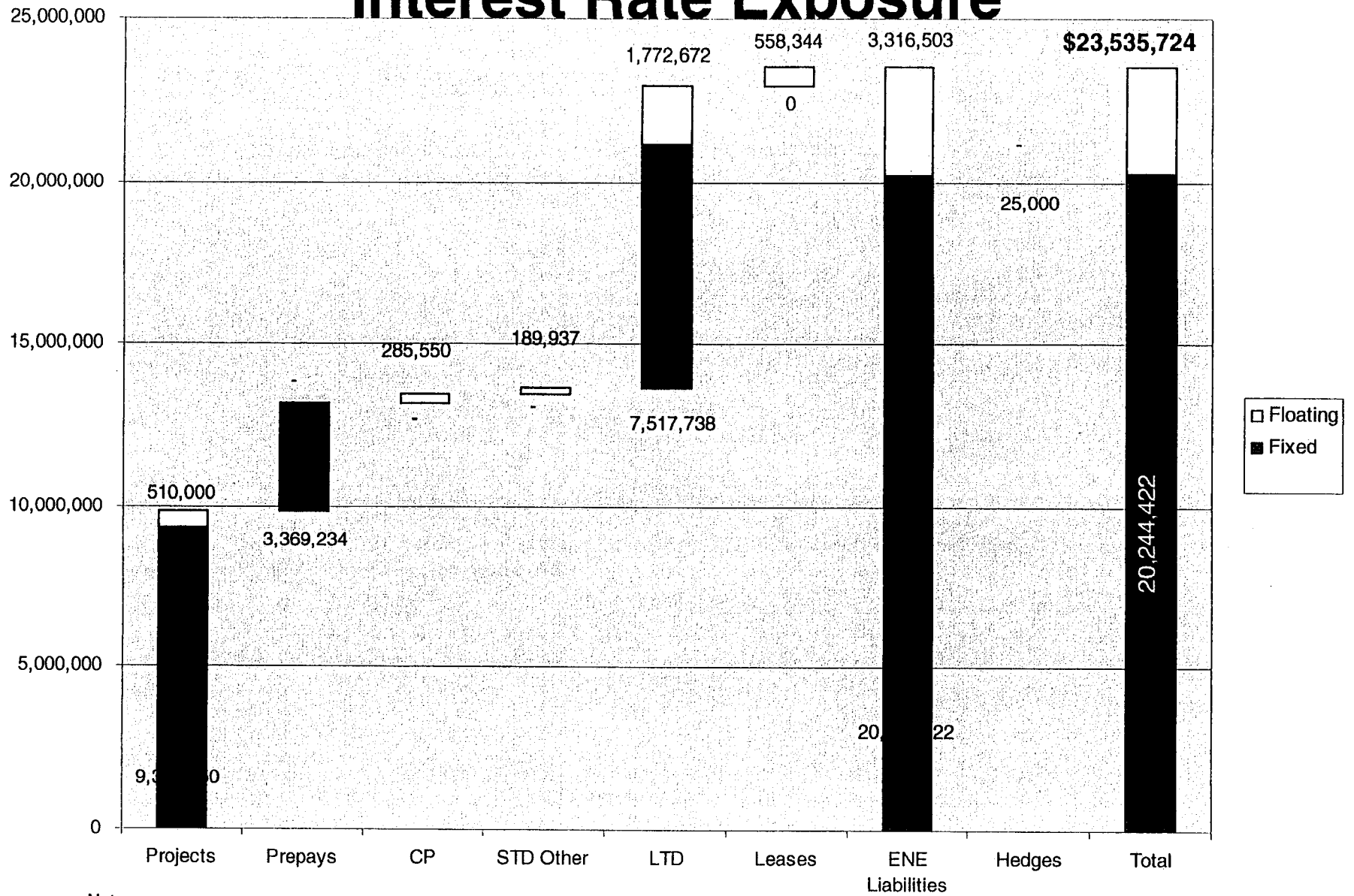
## Treasury Shares

1/1/01 - 1/29/01  
(000's except share price)

<u>Date</u>	<u>ENE Shares</u>	<u>Avg. Price</u>	<u>Amount</u>
1/17/2001	999	\$80.40	\$80,320
<b>Total</b>	<b>999</b>	<b>\$80.40</b>	<b>\$80,320</b>

<u>Authorization<sup>1</sup></u>	<u>Activity</u>
15,000,000	999,000
<small><sup>1</sup>Subject to Jim Derrick's approval</small>	

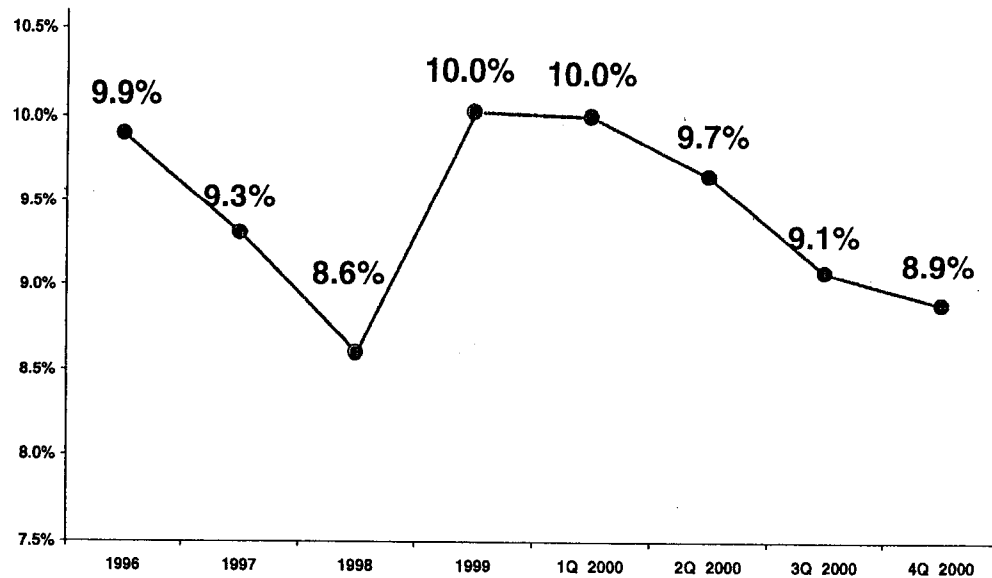
# Interest Rate Exposure



## Notes:

1. Current CP Balance of \$286MM represents 9% of floating rate debt. Fix/floating mix ex-CP is 87/13
2. EGF goal of 80/20 fix/flt composition.

# Cost of Capital\*



## Cost of Capital-CAPM Black Scholes

### Components

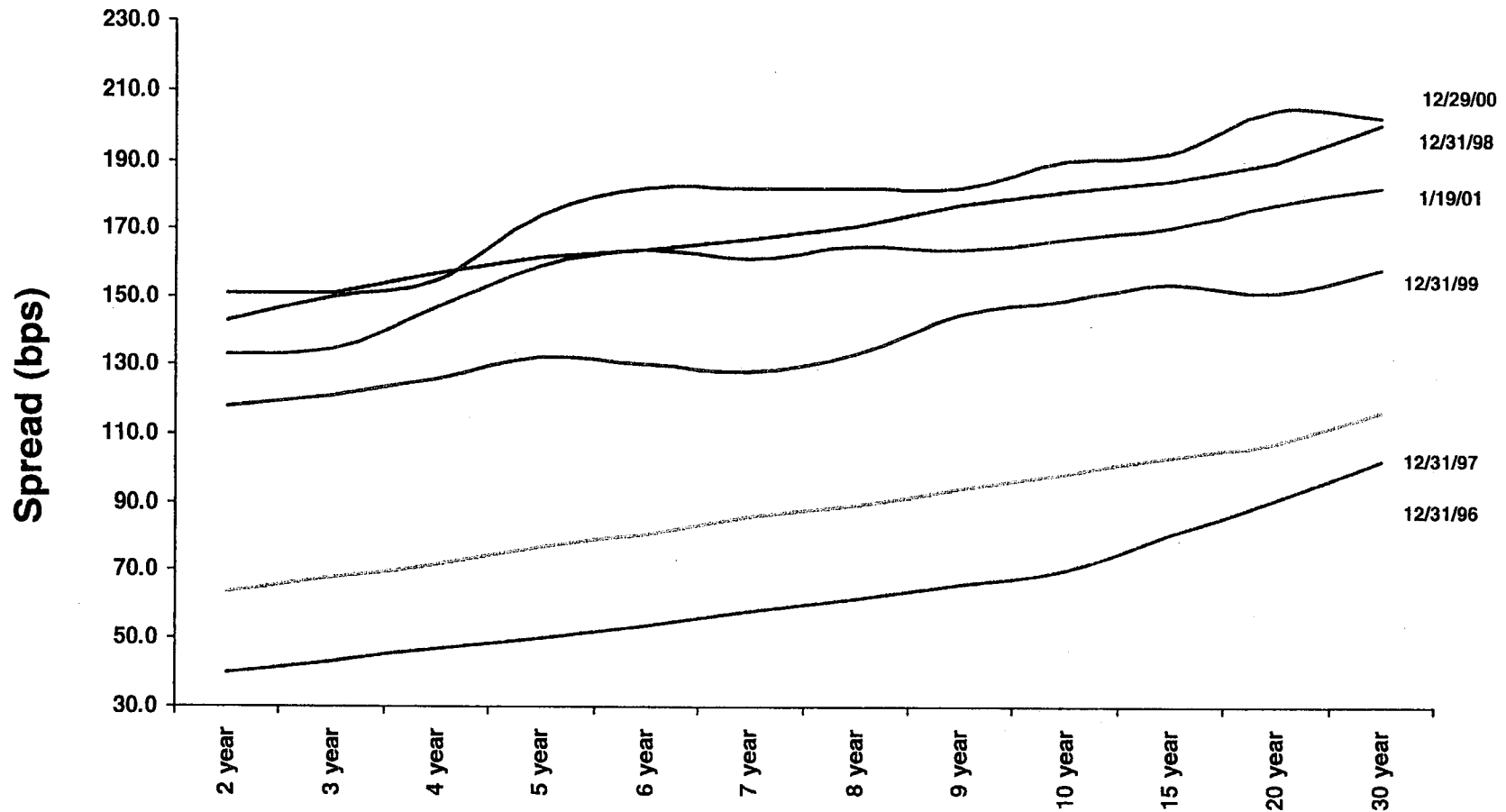
	%	Change from last report
Debt (AT)	4.77	0.09
Equity	9.83	(0.81)
<b>WACC</b>	<b>8.88</b>	<b>(0.19)</b>
UST 30yr	5.46	(0.17)

### Comment:

Over the past 2 years ENE share returns have shown less correlation with the overall market return, therefore our risk as compared to the market has decreased

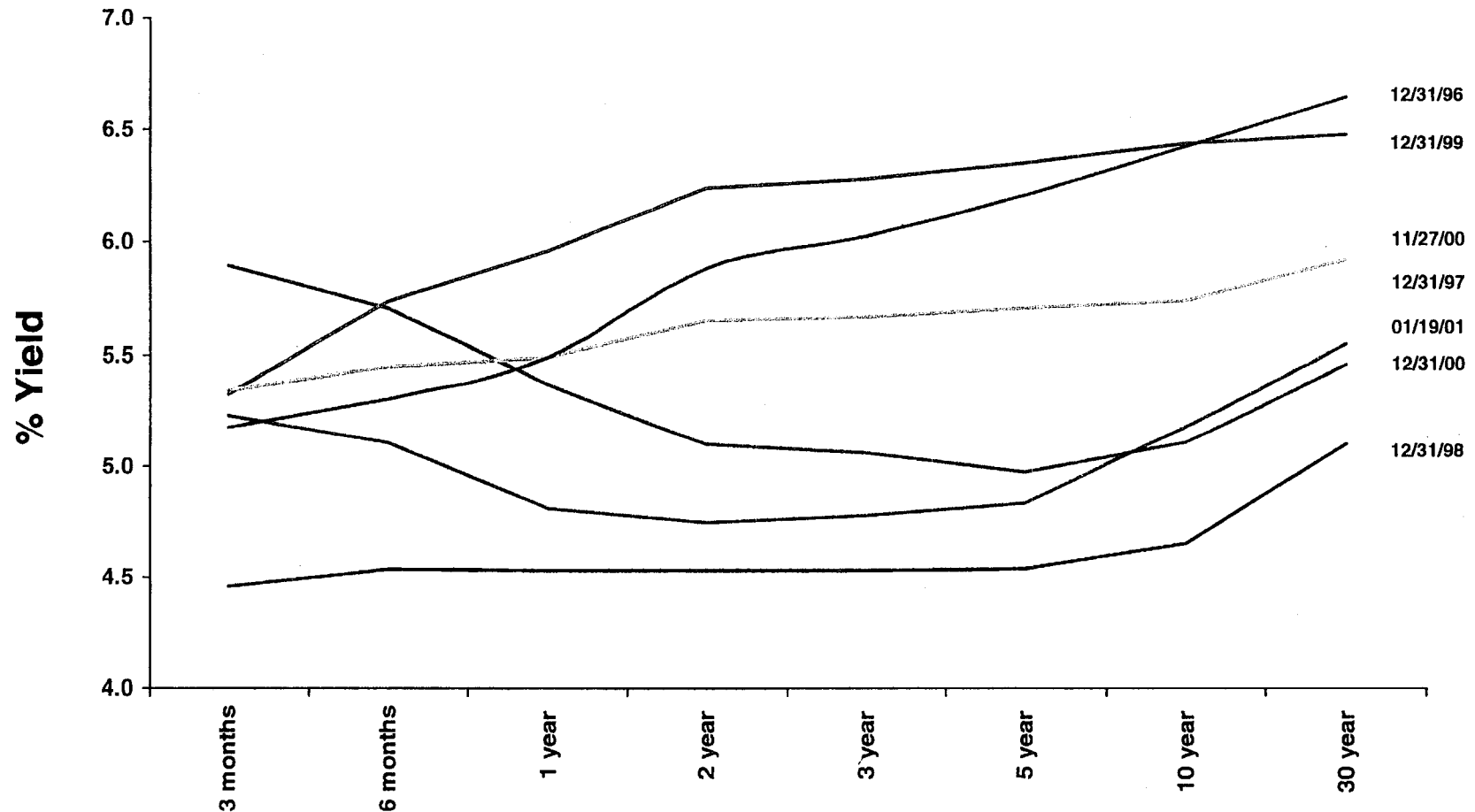
\* Calculated using historical CAPM Model

# Enron Corp. Re-Offer Spreads

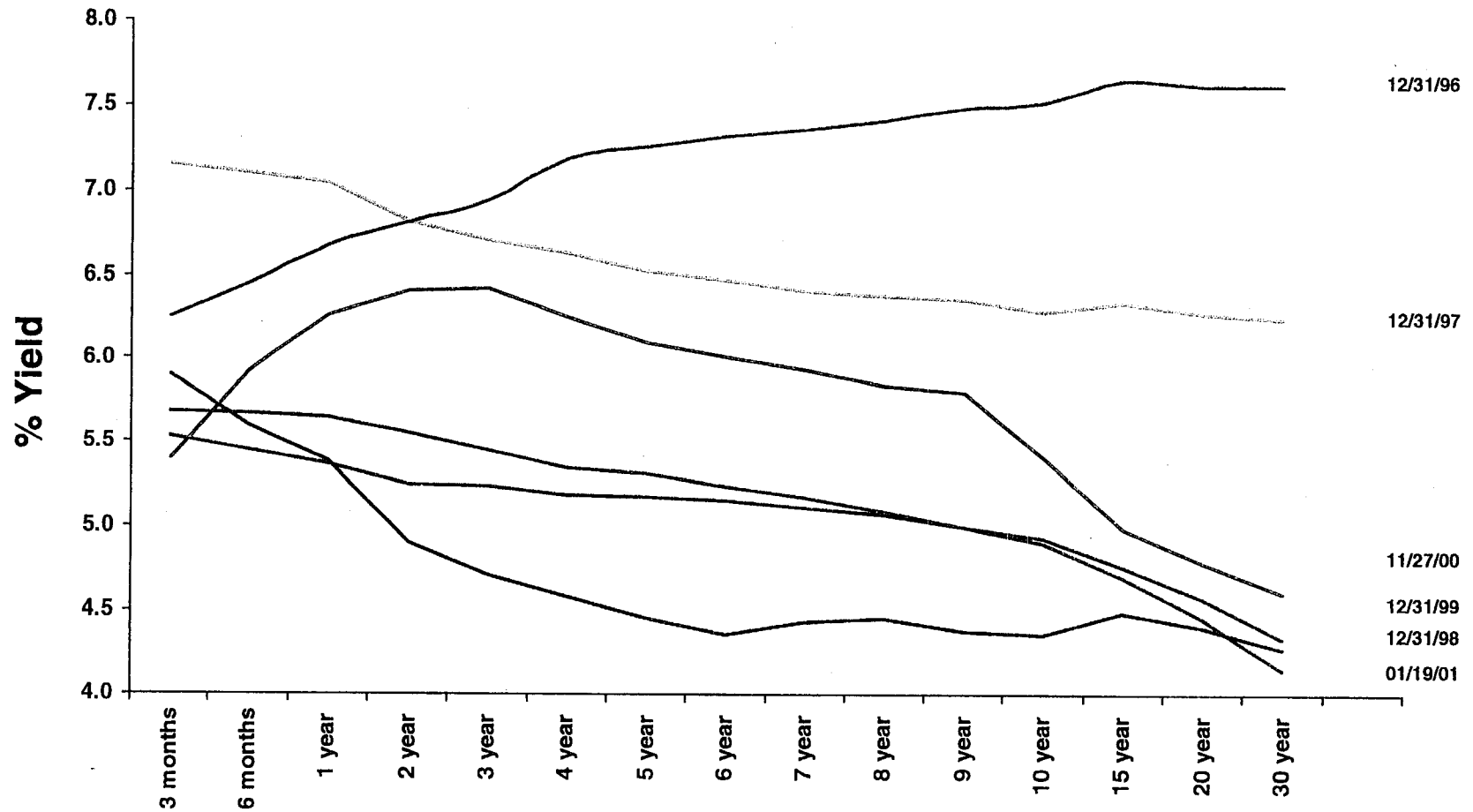


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# U.S. Treasury Yield Curve



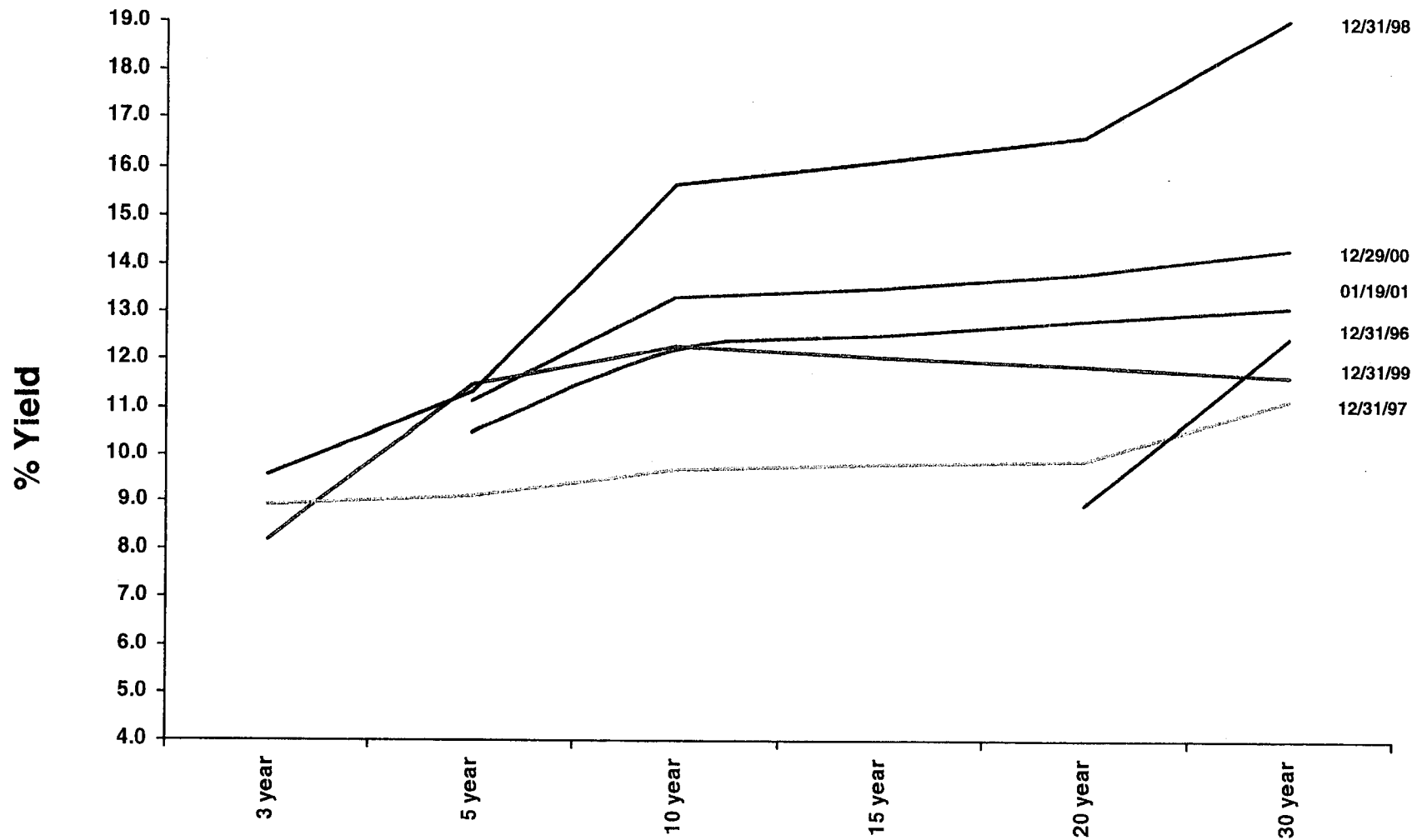
# U.K. Yield Curve



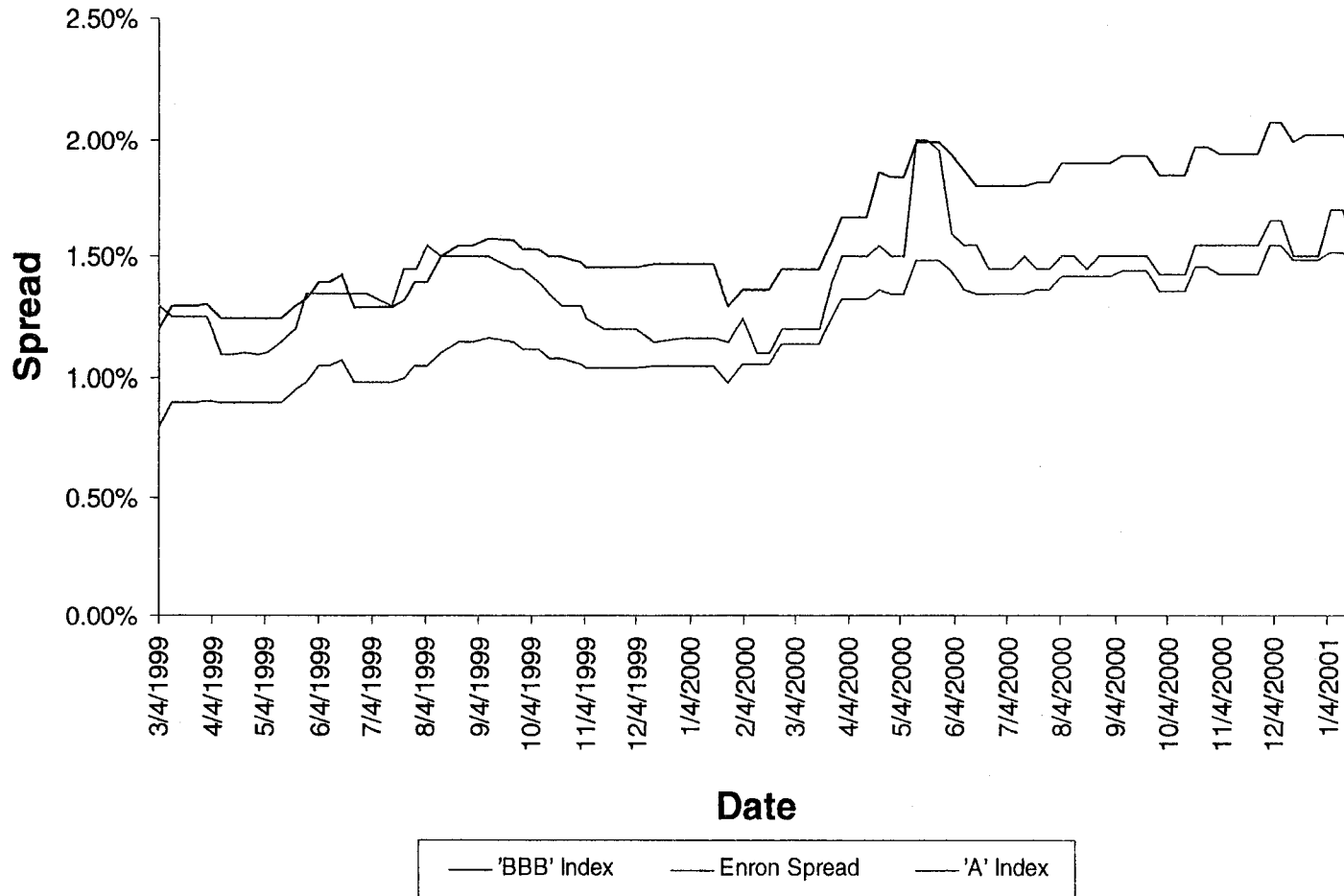
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# Brazil Yield Curve



# Enron 7Yr Spread Comparison vs. Index



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**Agenda Item 2B**

EC004403454

Andy discussed when the LJM vehicles are utilized  
Benefits to Enron

# **Enron Corp**

## **Review of LJM procedures and transactions completed in 2000**

**February 12, 2001**

EC004403455

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*Handwritten signature*

# LJM INVESTMENT 2000 ACTIVITY WITH ENRON

<u>Investment</u>	<u>Description</u>	<u>Notional Amount (\$Millions)</u>
<b>A. Balance Sheet</b>		
✓ Resco	Purchase of equity investment in EES'	.67 (private)
✓ The New Power Company	residential energy services.	38 (public)
✓ Yosemite	Purchase of an interest in certain Trust Investments supported by Enron credit; such interest subsequently sold to Whitewing, an Enron nonconsolidated affiliate.	33.75
✓ EE&CC Turbines	Acquired rights from Enron to purchase two turbines from GE with option to sell such turbines to EE&CC.	38
Margaux	Purchase of equity certificates in a <u>monetization</u> structure for three European power plants.	10
Rawhide	Purchase of equity certificates in a <u>monetization</u> structure for certain domestic and international assets.	12.5
Avici	Purchase of equity certificates in a <u>monetization</u> structure for Enron's interest in Avici shares.	1
Catalytica	Purchase of equity certificates in a <u>monetization</u> structure for Enron's interest in Catalytica shares.	1.8
✓ Pulp and Paper	Serves as general partner in a limited partnership interest that purchased an interest in Enron's Pulp and Paper trading business.	8

**Investment****Description****Notional Amount Millions)****B. Hedges**

RhythmsNet Stock options Termination of hedge of RhythmsNet investment.

-26.8

15

Raptors I, II, III, IV

Purchase of equity interests in four structured-finance hedging vehicles.

127.1

**C. Income Statement**

Dark Fiber

Purchase of Dark Fiber.

30

**D. Other**

Osprey Add-On

Purchase of additional Trust Certificates in Osprey – an unaffiliated equity and debtholder of Whitewing, an Enron nonconsolidated affiliate, which invests in both domestic and foreign merchant and other assets.

32.5

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Conroy

# RELATED PARTY TRANSACTIONS – LJM 2000 INTERNAL POLICIES AND PROCEDURES

(February 2001)

*Causey noted that it was discussed by Audit Committee*

1. Background: Board-established guidelines for transacting with LJM.

- No obligations vis-à-vis one another;
  - Chief Accounting and Risk Officers review and, where appropriate, approval;
  - Annual review by Board's Audit and Compliance Committee of completed transactions; recommendations, as appropriate; and
  - Annual Board review as to application of Company's Code of Ethics, i.e. such transactions "do not adversely affect the best interests of the Company".
- Process working effectively*

2. Compliance: The Company has adopted the following procedures and controls in response to the Board's direction.

- LJM Deal Approval Sheet ("DASH") prepared for every Enron/LJM transaction generally describing the nature of the Commercial transaction and relevant economics; approval required by a variety of senior-level Commercial, Technical, and Commercial Support professionals.
- DASH is supplemented by an "LJM Approval Process Checklist" testing for compliance with Board's directive for transacting with LJM; including questions addressing the following:
  - Alternative sales options and counterparties;
  - Determination that transaction was conducted at arm's-length; any evidence that it was not;
  - Disclosure obligations; and
  - Review of transaction by Enron's OTC, Chief Accounting and Risk Officers.

3. Supplemental Efforts: Checklist review complemented by the adoption of additional controls.

- LJM senior professionals do not ever negotiate on behalf of Enron;
- Enron professionals negotiating with LJM report to senior Enron professionals apart from Andrew Fastow;
- Global Finance Commercial, Legal, and Accounting monitor compliance with procedures and controls; regularly update Chief Accounting and Risk Officers; and
- Internal and outside counsel regularly consulted regarding disclosure obligations and review any such disclosures.

**Agenda Item 3**

EC004403459



# **Enron Corp**

## **Treasurer Report February 12, 2001**

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Finance Committee Meeting

# Enron Corp.

## Liquidity Report

### As of January 29, 2001

(\$000)

	Overnight	2-30 Days	31-60 Days	61-90 Days	91+ Days	Total
Commercial Paper & Uncommitted Lines	3,626,160					3,626,160
Bank Facilities						
BHF	18,979					18,979
Accounts Recievable		250,000				250,000
Whitewing		164,000				164,000
Shelf Registration - Debt		1,000,000				1,000,000
Shelf Registration - Equity <sup>1</sup>		1,200,000				1,200,000
Merchant Portfolio Monetizations (as of:01/18/01)						
Public Equity		220,619				220,619
Debt Instruments			575,614			575,614
Private Equity					1,322,580	1,322,580
<b>Total</b>	<b>3,645,139</b>	<b>2,834,619</b>	<b>575,614</b>	<b>-</b>	<b>1,322,580</b>	<b>8,377,952</b>

<sup>1</sup> Reflects 15mm shares at \$80 per share.

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# Enron Corp.

## Active Letters of Credit by Category

(000's)

	<u>01/22/01</u>	<u>12/31/00</u>	<u>12/31/99</u>
Bids	\$ 6,323	\$ 6,321	\$ 5,968
Debt	24,241	24,241	52,946
EOTT	88,582	102,089	150,310
Leases	13,315	12,750	15,604
Other	99,687	280,179	80,071
Other Third-Party	10,500	6,605	24,078
Performance	343,763	425,210	522,006
Trade	874,809	634,300	76,269
<b>Grand Total</b>	<b><u>\$ 1,461,220</u></b>	<b><u>\$ 1,491,695</u></b>	<b><u>\$ 927,252</u></b>

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# Enron Corp.

## Guarantee Portfolio

(000's)

	<u>12/31/00</u>	<u>11/30/00</u>	<u>12/31/99</u>
Trade (Payment & Performance)	\$21,197,904	\$20,003,426	\$17,316,817
EOTT Trade	544,744	494,790	440,375
Swap Agreements (Master & Individual)	10,878,431	11,329,184	7,148,443
Projects (Non-Debt)	4,632,739	4,466,558	4,756,470
Debt			
Consolidated Subsidiaries	3,084,698	2,892,635	2,155,303
Unconsolidated Subsidiaries	337,746	337,746	337,746
Grand Total	<u>\$40,676,262</u>	<u>\$39,524,339</u>	<u>\$32,155,154</u>

EC004403463

# Rating Summary

Rating Agency	Long Term	Commercial Paper	Outlook
Fitch IBCA/Duff & Phelps	BBB+	F-2/D-2	Stable
Moody's	Baa1	P2	Stable
R and I(Japan)	A-	n/a	Stable
Standard & Poors	BBB+	A2	Stable

Looking at getting a positive outlook for S+P.

Despain - discussed convertible assumptions, pricing & conversion

EC004403464

**Agenda**

EC004403465

# **Enron Corp**

## **Chief Risk Officer Report**

### **February 12, 2001**

EC004403466



# Merchant Portfolio Summary

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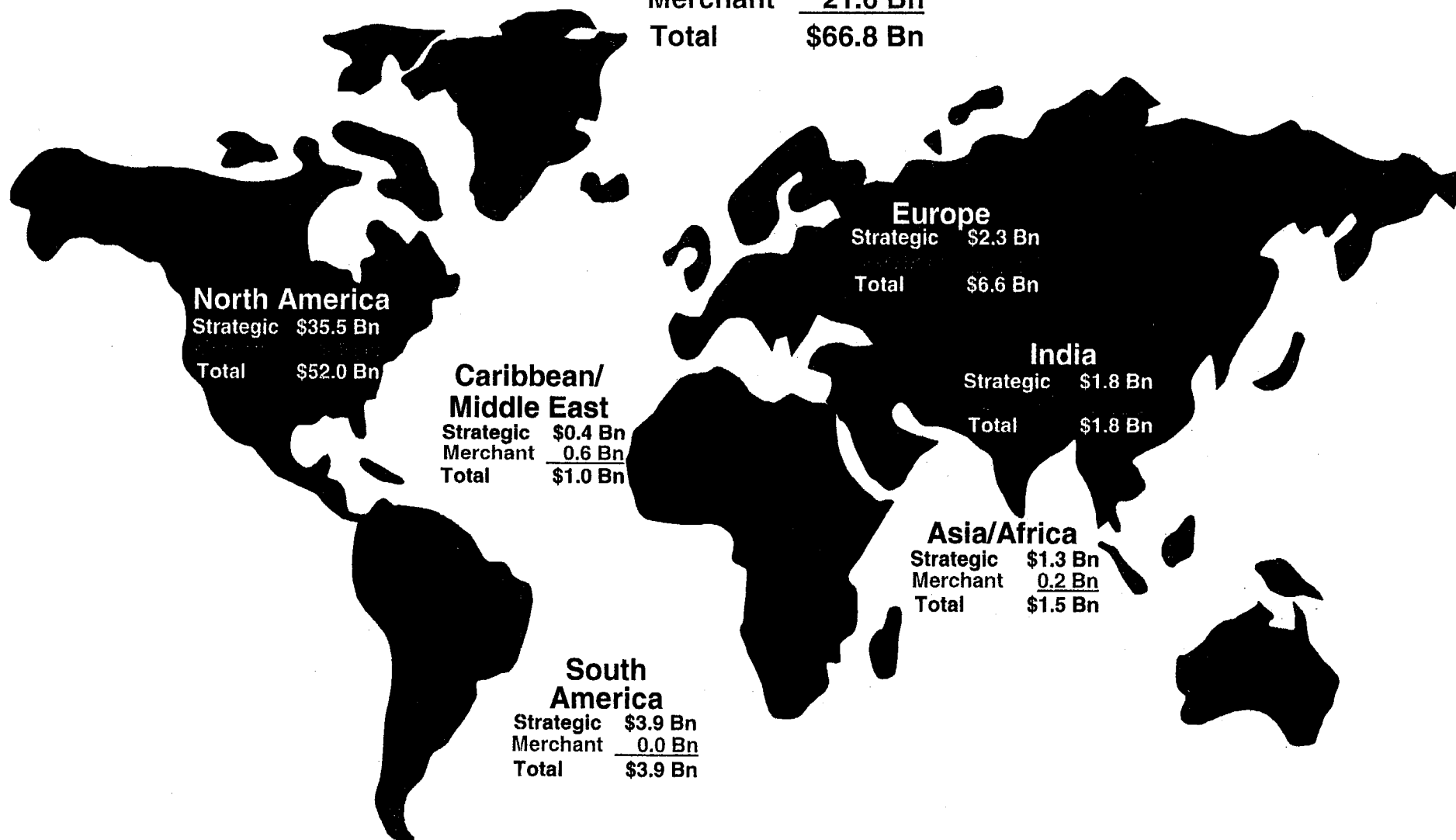
Finance Committee Meeting



# Enron's Assets by Region

as of December 31, 2000

Strategic	\$45.2 Bn
Merchant	<u>21.6 Bn</u>
Total	\$66.8 Bn



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